

TVA HEARING
TRANSMISSION ACCESS
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HOPKINSVILLE, KENTUCKY

Reported by: Karina L. Owen, RPR/CSR

ORIGINAL

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APPEARANCES:

TVA BOARD MEMBERS:

Bill Sansom, Chairman
Bill Baxter
Denny Bottorff
Don DePriest
Mike Duncan
Skila Harris
Howard Thrailkill
Susan Williams

PANEL #1 - NOTICED DISTRIBUTORS

Jim Allison - GM, Duck River Electric Membership
Corp., Tennessee
John Humphries - Superintendent, Princeton Electric
Plant Board, Kentucky
Gerald Hayes - President/CEO, Warren Rural Electric
Cooperative Corp., Kentucky
Ray McLennan - Board Chairman, Paducah Power System,
Kentucky

PANEL #2 - NON-NOTICED DISTRIBUTORS

Fred Hayslett - GM, Columbus Light & Water Department,
Mississippi
Harold DePriest - President/CEO, EPB (Chattanooga),
Tennessee
George Kitchens - GM, Joe Wheeler Electric Membership
Corp., Alabama
Eston Glover - Manager, Pennyrite Rural Electric
Cooperative Corp., Kentucky

PANEL # 3 - OTHER

Jack Simmons - President/CEO, Tennessee Valley Public
Power Association
Ed Bredniak, President, CMCC, Calvert City, Kentucky
Roy Palk - President, East Kentucky Power Cooperative
Mark David Goss - Chairman, Kentucky Public Service
Commission

1 We'll put them in the record and post them to our web
2 site, so any written comments, these and others can be
3 made part of the record. Okay.

4 Gentlemen, if we could have our second
5 panel. As these folks are being seated, I would like
6 to introduce them, and then we'll hear from them as we
7 did the first panel. They also represent four of the
8 distributors in the Tennessee Valley region. They are
9 Harold DePriest, president and CEO of the Electric
10 Power Board of Chattanooga. Eston Glover, manager of
11 Pennyriple Rural Electric Cooperation here in Kentucky,
12 and Eston is keeping the lights on for us here today.
13 I think he would tell you a little humorously he's got
14 something tied together, and he told them not to risk
15 untying it until the meeting is over. He may remark
16 about that.

17 Fred Hayslett, who is general manager
18 of Columbus Light and Water Department in Mississippi,
19 and George Kitchens the general manager of Joe Wheeler
20 Electric Membership Corporation in Alabama.

21 Panel members, I will remind you the
22 yellow light will remind you when you have two minutes
23 left. The red light will come on when you're out of
24 time. We're not going to jerk you off. I think the
25 first one worked well, so it's really for your benefit

1 to kind of tell you how to conclude your remarks. Mr.
2 Chairman.

3 MR. SANSOM: Okay. Thank you very
4 much, and thank you all again for coming and being
5 with -- and Eston, congratulations on your new job. We
6 hope to work well with you as we move along.

7 MR. ESTON: Same here.

8 MR. SANSOM: So congratulations. He
9 was just elected chairman of TVPPA, what, two nights
10 ago?

11 MR. ESTON: Yes, sir.

12 MR. SANSOM: What an honor to come up
13 here and meet us for the first time, so congratulations
14 to you.

15 MR. ESTON: Thank you.

16 MR. SANSOM: I don't know what order.
17 Harold, do you want to start?

18 MR. DEPRIEST: Yes, sir, I will. Mr.
19 Chairman, and members of the TVA board, my name is
20 Harold DePriest. I'm the president and the CEO of EPB
21 of Chattanooga. I'm past chair of TVPPA and the
22 current chair of the Tennessee Broad Band Council. I'm
23 also a member of the board of TMEPA. EPB of
24 Chattanooga is your third largest customer in terms of
25 the amount of load that we serve. We're the fourth

1 largest customer in terms of the number of customers.

2 In addressing you today, I will be
3 discussing the issues upon which the larger
4 distributors have differing opinions. We're certainly
5 not in unison. A lot of what I'll say probably will
6 reflect a lot of your larger customers, but I,
7 essentially, am speaking only for myself and for the
8 opinions of Chattanooga.

9 The issue of today's hearing is of
10 transmission access, which I think is something that
11 has to be put in its proper perspective. The Tennessee
12 Valley is currently in a unique position in terms of
13 its electrical energy supply and in the sense that we
14 are served exclusively by the Tennessee Valley
15 Authority, that's based most on exclusive contracts as
16 well as federal legislation that, in effect, put a
17 fence around the Tennessee Valley.

18 I suspect that the people in this room
19 would have differing opinions about the wisdom of
20 removing that fence. I'm not speaking about the wisdom
21 of removing the fence. I'm speaking from my concern
22 that sooner or later that fence will be removed. Quite
23 simply, we've been concerned for a number of years that
24 a legislative solution may remove the fence around the
25 valley and do so in a way that is perhaps a little bit

1 precipitous. What we are interested in seeing as
2 distributors is seeing that fence come down gradually
3 in a very controlled manner to give both you at TVA and
4 us the distributors an opportunity to respond to a more
5 competitive wholesale market.

6 You may have heard that perhaps TVPPA
7 was involved in trying to foster legislation. That is
8 not true. I'm here today to tell you that our real
9 issue is to avoid legislation. What we would like to
10 see is a contractual solution to the problem.

11 I might add too, this is not a new
12 problem. I've been the president of EPB for 10 years,
13 and for that entire 10-year period, we've been
14 discussing and alternately negotiating this issue with
15 TVA, so it's been around a long time. There's been a
16 lot of thought gone into it, and I do think we've
17 finally come to terms with something that could work
18 well both for TVA and for the distributors.

19 We came up with several pretty simple
20 principles that are embodied in TVPPA board action and
21 those principle are these. First, that it is possible
22 to deal with this issue contractually rather than
23 legislatively. We think that's the preferred solution.

24 The second issue is the access of the
25 TVA transmission system and the ability to purchase

1 some power from sources other than TVA are the keys to
2 gradually removing the fence. But, in fact, they are
3 the cornerstones.

4 Our third position is that by
5 controlling the amount of power purchased elsewhere,
6 both TVA and the distributors can have an opportunity
7 to respond in a timely manner to the changes that this
8 will bring about in the valley. Such actions, we
9 think, have to be done in a way that meet the needs of
10 all distributors. The distributors who have given
11 notice, those who may in the future, and, frankly, a
12 large number of distributors who probably have no
13 intention of giving notice. We think it's important
14 that all of their needs be met.

15 Our final notion is that we support the
16 principle of removing the federal fence legislatively
17 in a proportional manner as load may leave the valley,
18 but we don't think that that's a prerequisite to being
19 able to arrive at a contractual solution. You already
20 have the ability to sell power to 14 different entities
21 based on current federal law, and that's a reasonably
22 large market. But we think the real key to this
23 proposal is the notion of proportional -- the fence
24 coming down in a proportional manner.

25 We think the contractual solution is

1 much, much to be preferred. My concern is just simply
2 this, if we wait and allow a legislative solution to
3 occur, I'm not sure that those of us in the valley will
4 be able to control all of the unintended consequences
5 of that type of legislation. The devil is always in
6 the details, but I think it's going to be important
7 that this be done in a way that meets the needs of our
8 customers.

9 Finally, I'd like to offer one
10 additional thought. Most of the people in this room
11 are long-time utility people, and we're all familiar
12 with the notion that we have captive customers. I can
13 say that to you because in Chattanooga, that's one of
14 my biggest issues, trying to ensure that my employees
15 understand that they exist for the customer's benefit
16 and not the other way around. Having captive customers
17 can, I think, be a very corrosive element in any
18 organization. I think we would all benefit from some
19 degree of competition. I think our challenge is to
20 bring that competition to the valley in a controlled
21 and limited way so that we have an opportunity to
22 adjust.

23 This concludes my remarks, and I thank
24 you for giving me the opportunity to state my opinions.

25 MR. SANSOM: Thank you, Harold.

1 MR. GLOVER: Mr. Chairman and the TVA
2 board, I want to thank you for allowing me to be here
3 today to talk to you about the needs and concerns of
4 the distributors in the valley. In relation to what
5 Tom was telling you a while ago, you all are new to the
6 electric industry, but the managers sitting behind me
7 know that when you have a meeting like this, you want
8 the lights to stay on.

9 So I went by the line crew this morning
10 and the operations superintendent, and I said, Do we
11 have anything going on out there? And they said, No,
12 and I said, Let's make sure nothing goes off. Five
13 minutes later, I was at a meeting and I got a call,
14 Your luck's really in the gutter today, Eston, there's
15 been a car hit that hit a pole right by the convention
16 center, and I said, Get the power on, you know, and so
17 it's an issue, but we are fortunate to have these kinds
18 of people that take care of the need at the time.

19 My name is Eston Glover, Junior, and I
20 am president and CEO of Pennyrite Electric Cooperative
21 serving 45,000 consumer owners in nine counties in the
22 south west part of Kentucky. I've served as president
23 of the Kentucky Managers Association, currently serve
24 as secretary treasurer of the Kentucky Association of
25 Electric Cooperatives, and I also serve as chairman of

1 the board of the Tennessee Valley Public Power
2 Association.

3 TVPPA represents 158 distributors in
4 the valley. Our cooperative, along with other
5 distributors in the Kentucky area, have dealt with the
6 issue of lower costs of electricity provided by some of
7 our neighbors, and we have spent a lot of time
8 researching and looking at the options for being able
9 to buy wholesale power at a cheaper rate.

10 We visited with most every supplier of
11 wholesale power and evaluated all the options relative
12 to price, reliability, cost to move from TVA,
13 generation capacity and transmission issues, all of
14 these things we've looked at and talked about, but we
15 decided early on that TVA was the best supplier for us
16 at this time.

17 Actually, since that decision, we have
18 seen a narrowing of the opportunity to save money on
19 energy costs and in some cases a reversal in how our
20 costs compare with some of our neighbors. Since we
21 have made the decision to stay with TVA and to continue
22 to buy our power from this supplier, it is in our
23 member owners best interests that TVA continue to be a
24 strong and healthy organization.

25 We also believe it is very important

1 that TVA operate in a fiscally sound manner, continue
2 to maintain a strong bond rating in the open market,
3 and that the distributors choosing to stay on with TVA
4 should not bear an undue burden of costs brought on by
5 any distributor choosing to buy power outside the
6 valley.

7 TVPPA has a steering committee
8 consisting of noticing distributors and non-noticing
9 distributors. We have worked very closely with TVA
10 developing a document containing a framework of ideas
11 for discussion that will resolve issues relative to
12 transmission, generation and transmission ownership,
13 and partial requirements. We strongly support this
14 effort and praise the work of those that have been
15 directly involved in putting this in place.

16 Within this framework document, we feel
17 that a nonlegislative contractual plan is the best
18 approach to use. This contractual arrangement would
19 allow for transmission access on a comparable, just and
20 reasonable, and nondiscriminatory basis for all who
21 choose alternate power suppliers and/or purchase or
22 construct their own generation and transmission assets.

23 We agree that the arrangement must meet
24 the needs of all the distributors, including the
25 current notice givers, future notice givers, and those

1 with no desire to leave TVA. We also agree that the
2 arrangement should protect all distributors from undue
3 costs shifting between various groups of distributors.
4 We feel that there should eventually be legislative
5 action modifying the TVA fence, so that the TVA will
6 have the opportunity to sell a pro rata amount of power
7 outside the valley compared to the amount of load lost
8 to other wholesale providers. But until legislation
9 action can occur, the framework document should be used
10 to reach a contractual agreement allowing for
11 transmission access.

12 Good faith steps have been taken by all
13 parties to solve issues of transmission, partial
14 requirements, generation and transmission ownership,
15 and the framework document that you have seen today is
16 evidence of that.

17 I encourage you to continue your
18 management method by allowing TVA's CEO and management
19 personnel, along with this board, to continue to work
20 with TVPPA leadership in fleshing out the issues still
21 remaining and finalizing a contractual agreement that
22 will meet the needs of all the valley, not just one or
23 two segments of the valley. I'm sure you realize that
24 not everyone will agree with everything that's in the
25 finished product. But working together, everyone can

1 agree that a jointly negotiated contractual agreement
2 can meet the needs and expectations of all parties.

3 Thank you for allowing me to express
4 the views of the TVPPA, which represents all 158
5 distributors in the valley.

6 MR. SANSOM: Thank you, Eston. Fred.

7 MR. HAYSLETT: Good morning, Mr.
8 Chairman, members of the board. My name is Fred
9 Hayslett. I am the general manager of Columbus Light
10 and Water in Columbus, Mississippi. I am the immediate
11 past vice chair of the Board of Directors of Tennessee
12 Valley Public Power Association and the immediate past
13 president of Northeast Mississippi Public Power
14 Association consisting of 28 distributors. Although
15 geographically situated to have easy access to other
16 power suppliers, barring any unforeseen circumstances
17 or dramatic policy shifts by TVA, I doubt that Columbus
18 Light and Water would be a distributor to give notice
19 to any part of its load.

20 As such a distributor, it is in our
21 interests for TVA to remain a viable financially,
22 stable, power provider. It is in our best interests
23 that we not be burdened with undue cost shifting
24 created by the departure of other distributors or
25 customers. This is why I wholeheartedly support the

1 contractual transmission access framework as put forth
2 by the Tennessee Valley Public Power Association. I
3 know that TVPPA has made every effort to keep TVA and
4 congressional delegations informed as this product
5 evolved. I am appreciative of the constructive input
6 and comments that TVA has provided to this process.

7 I have spent the past 30 years involved
8 in some form of municipal level of public service, from
9 elected office to utility management. This experience
10 convinces me that a contractual arrangement between TVA
11 and the distributors is by far a much better road to
12 travel than a legislatively mandated one.

13 The framework put forth by TVPPA, which
14 addresses transmission access is one that I believe to
15 be fair to all distributors. This proposal allows
16 those distributors who have given notice to remove
17 their entire load from the TVA system while benefiting
18 those non-noticing distributors by methods such as
19 retaining exclusive rights to the continued forward
20 purchase of the output of TVA's current heritage
21 generation assets and the future TVA generation assets.

22 This proposal supports the principle
23 that TVA remain viable and financially strong. We want
24 TVA to continue to be an attractive investment
25 opportunity. This desire to help ensure TVA's

1 viability is the driving force behind the proposed
2 measured rate of departure for any future noticing
3 distributors for all or part of their load. A ratable
4 departure level can be managed and will mitigate
5 negative financial impact. In addition to providing
6 the protection to TVA, this process would also provide
7 protection to those distributors who have no desire to
8 give notice.

9 We further support the idea that as a
10 second step, the TVA fence should be modified by
11 legislative action that allows TVA to sell power to
12 those other than the identified 14 entities in the 1959
13 amendment to the TVA Act. That would give TVA the
14 ability to sell outside the fence on a prorated basis
15 set by the amount of loss load. However, this desire
16 for a legislative change must not stand in the way of a
17 contractual process to allow transmission access. The
18 legislative fence modification is not a prerequisite
19 for transmission access. The legislative -- in truth,
20 those 14 identified utilities represent a majority of
21 those with whom TVA already has an existing
22 interconnection agreement and provides a fairly deep
23 market for the sell of excess TVA power.

24 I encourage the TVA board to instruct
25 TVA executives to negotiate in good faith with TVPPA to

1 develop a contractual agreement based on the framework
2 developed by TVPPA. I have no doubt that if TVA, the
3 noticing distributors, and the non-noticing
4 distributors do not execute an agreeable contractual
5 arrangement pertaining to transmission access fairly
6 soon, it will be done for us and as is often the case,
7 none of us is going to like the end result. I thank
8 you and I appreciate the time and I appreciate the
9 forum that you provided for the distributors, thank
10 you.

11 MR. SANSOM: Thank you, Fred. George.

12 MR. KITCHENS: Good morning, Mr.
13 Chairman, members of the board, I want to thank you for
14 the opportunity to participate in this process today.
15 I am George Kitchens, I'm the general manager and CEO
16 of Joe Wheeler Electric Membership Corporation. We
17 serve about 41,000 customers in two counties in north
18 Alabama. I also serve as chairman of the North Alabama
19 Public Power Association and as a member of the TVPPA
20 board.

21 In my remarks this morning, I'd like to
22 attempt at least represent the broad mixture of views
23 and distributors that we have in north Alabama as well
24 as our own company's point of view. None of the
25 companies in north Alabama have given TVA notice of

1 their intent to buy power elsewhere. That's a plus
2 going in, but we do have a wide range of distributors.

3 Huntsville Utilities, for example, is
4 among the largest of the TVA distributors and the City
5 of Cortland is the smallest TVA distributor in the
6 system with about 900 customers. Even though nobody
7 has given notice, there are those among us in north
8 Alabama that have explored other opportunities. We
9 have had one distributor seriously look at buying power
10 from other providers. We have had others among us that
11 have expressed the desire to buy a portion of their
12 power from others if that opportunity were available.
13 We've also had a distributor that has looked into the
14 prospects of building its own generation.

15 By and large though, we all enjoy the
16 high quality of service and reliability that we get
17 from TVA, and we hope that that can continue going
18 forward. At times you've heard this morning mentioned
19 the long-term contract discussions that have been
20 taking place in the valley from time to time. There's
21 been interest expressed by a large number of our
22 distributors in north Alabama of their desire to enter
23 into an agreement of that sort. Right now though we're
24 here to address transmission access and that is a very
25 important issue.

1 TVA and the distributors are at a
2 significant crossroad in our history. It's my belief
3 that in these changing times that TVA and distributors
4 should work together proactively, craft changes that
5 result in a financially healthy TVA, continue strong
6 economic growth in the valley, and that meet the needs
7 of distributors. The framework that TVPPA has
8 developed over the past several months, I think
9 provides a good opportunity to do that. By working
10 together, our organizations and TVA can craft a
11 solution that works for the best benefit of the valley
12 much better than a solution that's created in
13 Washington, that as Harold mentioned may result -- and
14 may give us results that we don't like.

15 We've got unique situations here in the
16 valley and a solution that we develop here in the
17 valley by working together can best address that. You
18 know, in the early days of TVA, and I would like to
19 compliment you. I know this hearing today is being
20 held on the TVA's 73rd anniversary. It's a great
21 heritage that we have. In the beginning TVA and over
22 the course of the years sort of had a paternalistic
23 relationship with its distributors. That relationship
24 was necessary early on.

25 However, as TVA has matured into a

1 world class operator of generation and transmission
2 assets, by the same token, distributors have matured
3 into sophisticated professionally run organizations.
4 And, folks, just like any parent child relationship,
5 sooner or later the kids want to eat at the grownup
6 table, and I think the framework that we've developed
7 to address the issue of transmission access is an
8 example of that.

9 I strongly support a contractual
10 solution of this rather than a legislative or
11 regulatory solution that might come out of Washington
12 and not be good for any of us. It might take us too
13 far too fast. Even as the Berlin wall came down, it
14 didn't come down by a mass explosion that took place.
15 They chipped at it and it came down in a measured,
16 controlled way so that those countries affected
17 benefited from it.

18 Members of the board, I want to thank
19 you for this opportunity to participate in these
20 hearings. I urge your serious consideration of the
21 proposals that are presented here today. It's my hope
22 that you will authorize the CEO of TVA and his
23 representatives to continue the discussions and
24 negotiate and execute contractual agreements with the
25 distributors that embrace the TVPPA framework. These

1 solutions will work to the best interests of the
2 Tennessee Valley. Thank you very much.

3 MR. SANSOM: Thank you, George. Thank
4 you all very much. We'll go to the same thing, we'll
5 ask you questions. The grownup table, don't ask about
6 the food, though, don't they, that's what you learn.
7 I'll yield to the --

8 MR. DUNCAN: Let me start with this
9 bond issue. One of the critical things and that makes
10 TVA work with the amount of debt that's been alluded to
11 is our bond rating, and I would think that that's an
12 integral part of the plan that you put out there. So
13 let me ask Denny's question, how do you think this
14 affects our bond rating, your plan?

15 MR. DEPRIEST: I think, sir, that that
16 would depend upon how it's applied, but I think if we
17 come to an agreement on a way that's allowing any power
18 that leaves the valley not to exceed the growth, I
19 don't see how that can hurt that bond rating. Your
20 bond rating is just like my bond rating. It's based on
21 your ability to raise rates to pay the bonds and as
22 long as you have that amount of base load for the
23 generation you've already got out there, you're going
24 to be able to do that.

25 MR. SANSOM: Let me ask about the

1 decisions from TVPPA's side, probably of what TVA does
2 about Brown's Ferry or, I mean, again, I'm kind of
3 asking this in the new person. Have you all been
4 involved -- when you're betting on TVA, which is what
5 you're doing and we're all doing, have you been
6 involved in whether these nuclear plants come on or
7 not? Do people -- does TVA -- do they talk to you?
8 I'm going to go onto ownership in a minute, okay. But
9 have you had input into that? Do you support that from
10 a TVPPA point of view?

11 MR. GLOVER: The operation of the
12 system has been controlled by TVA, and they've made
13 decisions to best use the units that they have in
14 place. Now, if there was going to be a big change or a
15 big unit brought on, there has been discussion with
16 TVPPA in that realm, but we know that TVA and the
17 people there know how to operate the system and their
18 assets, and I guess this has not been a big part of
19 what we've tried to do. We just want to be involved in
20 the ownership or the -- having some involvement in any
21 new assets or generation that might be put on the
22 system.

23 MR. DEPRIEST: I think, Mr. Chairman,
24 had you asked that question two years ago, you would
25 have gotten a totally different expression on our faces

1 as we're contemplating an answer. We have all, I
2 think, been very impressed with the openness of your
3 current management team, and they have offered to share
4 information with us and discuss things with us that,
5 frankly, didn't happen in the past.

6 At one time, to use George's reference
7 as children, we were somewhat to be seen and not heard,
8 and we tended to hear about things as they were
9 happening and not be a part of the discussion. We
10 don't want to run TVA. What we really would like is to
11 have enough information to run our own systems by
12 understanding where TVA is going and to have some
13 degree of input in the direction at times.

14 MR. SANSOM: You know, I do know we're
15 faced with the next plant, what we do, and I hope we
16 have the dialogue with you all to try to help us figure
17 those things out, debt, whether there a Watts Bar 2 or
18 not, those kind of things, and so you feel like today
19 you've got that relationship is what you're saying to
20 have that discussion.

21 MR. GLOVER: We have got a great
22 relationship. The dialogue is there. Your management
23 team has provided information that we were not used to
24 having. It's a great opportunity for us to know what's
25 going on with a big part of our business.

1 MR. SANSOM: Let me ask then this
2 question of ownership. Has TVPPA talked about
3 ownership of any TVA facilities at all? Has that ever
4 been talked about? I'm talking about partnerships of
5 ownership or your capital?

6 MR. DEPRIEST: Yes, sir, it certainly
7 has been talked about.

8 MR. GLOVER: Various methods of doing
9 that and there's nothing concrete or written down as to
10 what we really want, but we do know that ownership
11 gives us some stability in knowing where we're going
12 down the road, and we think we can be a good partner in
13 that part of the business with TVA. Our costs of
14 dollars that we have are somewhat less than the cost of
15 dollars that you can get at TVA, and we'd be willing to
16 share that part of the load in exchange for some
17 ownership or a partner in business.

18 MR. DEPRIEST: For a number of years,
19 we have talked on this issue of long-term contracts.
20 To many of our minds, there's nothing more long-term
21 than a partnership agreement in which ownership is
22 shared. And, frankly, we tend to think that ownership
23 leads to more of a true partnership than in the past.
24 And we have some concerns about your debt ceiling that
25 there are probably going to be times when you could use

1 some help with the financing, we're willing to step up
2 and participate.

3 MR. HAYSLETT: Mr. Chairman, I don't
4 know that in the past there's been any specific
5 discussion with regards to specific facility. But
6 starting with a long-term contract negotiation 12 to 18
7 months ago, this became part of that discussion, and
8 it's evolving and ongoing, and we have expressed an
9 interest, and I have heard some interest from TVA's
10 side about some distributor partnership and ownership
11 through several different mechanisms that gives us some
12 equity in the business and uses our finances to help
13 not add to your debt, but not necessarily puts us in
14 the operation position of it.

15 MR. SANSOM: Fred, while you're -- let
16 me ask you one thing on -- you said something about the
17 heritage -- I don't know. You talked about the
18 rights -- not the rights, but being able to purchase
19 this heritage buyers and heritage -- kind of go through
20 that with me.

21 MR. HAYSLETT: It's my understanding
22 that if those remaining distributors who choose not to
23 take any part of their load or leave a large percentage
24 of their load left with TVA, would have first access
25 right to those heritage assets that TVA has got and not

1 a new distributor or a new customer or that type of
2 thing.

3 MR. SANSOM: Or somebody coming back
4 too?

5 MR. HAYSLETT: It depends on the
6 process in which somebody decides to come back. If I
7 as a distributor decide to stay, there is some benefit
8 I should have for that in not giving notice for any
9 part of my load and that's part of this framework
10 discussion. If we choose not to give notice, what
11 benefit is that? If we're going to try to assist and
12 help someone who wants to leave and be able to leave
13 and have transmission access, there is some benefit
14 that would accrue to us that decided to stay, and part
15 of that is rights to that heritage generation.

16 MR. BOTTORFF: I want to go back and
17 just sort of understand the premise that I heard you
18 say was there as it related to the reason for the TVPPA
19 proposal, and what I heard was that there's a belief
20 that the fence will come down. I think you -- is that
21 a TVPPA belief that the fence will come down or is
22 that --

23 MR. SANSOM: Or would you rather it not
24 come down?

25 MR. BOTTORFF: Then I want you to talk,

1 if you believe it will, then I want you to help me
2 understand why you believe so strongly, because I
3 thought there was some experiments in sort of a more
4 freely competitive utilities system than turned out to
5 not be so good with power outages and increased costs
6 and some sort of thing. Is free competition really the
7 best way to service such a capital intensive industry
8 as the power industry?

9 MR. HAYSLETT: I don't know. I don't
10 know that we believe that there's going to be an effort
11 to bring the fence down wholesale. I do believe that
12 if we do not work out this issue of transmission access
13 through a contractual agreement, there will be a
14 legislative action that to some degree affects the
15 fence with regards to those distributors who've already
16 given notice, which will then adversely affect some of
17 those distributors who do not give notice. There is no
18 doubt in my mind that there is legislation sitting on
19 somebody's desk today that will be introduced to affect
20 that fence if we cannot come up with some sort of
21 contractual agreement fairly soon.

22 MR. BOTTORFF: So you're not dealing
23 with what is a broad description of the ideal economic
24 model for the distribution of power in this country.
25 You're really talking about the practical issue that

1 really is brought about in part because of the Kentucky
2 situation right now.

3 MR. HAYSLETT: Yes, sir. And also -- I
4 think TVA needs the right beyond what they already have
5 to sell what I describe as excess power. I don't mean
6 at my detriment do you have that right to go sell --
7 but what I would describe as excess power, to be able
8 to do that, I think you need to have that ability to do
9 that as you lose some over here, and I think you need
10 the ability to be able to do that, and that's going to
11 have to take some sort of legislative modification.
12 That helps keeps you whole, which in turn helps me if I
13 stay with a hundred percent of my load.

14 MR. BOTTORFF: Help me -- this is what
15 I'm trying to understand is, if the mission is low cost
16 reliable power and hopefully lowest cost reliable
17 power, then what is the best economic model that's
18 there to do that for the customers of TVA? And when
19 you think about this being a capital intensive
20 industry, one in which capacity comes on in great big
21 chunks and, therefore, excess capacity is very
22 expensive, it just seems to me that being able to --
23 that the TVA model is a very good model, and I'm trying
24 to understand why it isn't from a standpoint of really
25 satisfying your needs, what's wrong with it that makes

1 you want to go away from that model, which is what this
2 proposal does.

3 MR. HAYSLETT: I'm not sure that this
4 proposal totally goes away from that model. I think
5 this proposal is the best possible answer to -- from
6 what I have seen possible proposed legislative action.

7 MR. BOTTORFF: I see.

8 MR. SANSOM: So that's your action to
9 that is what you're saying?

10 MR. HAYSLETT: It is also one of the
11 reasons we have some of the lowest retail rates in this
12 valley is the fact that TVA is our regulator. As
13 distributors, we operate on a very, very small margin
14 and that's one of the reasons we have very low and
15 competitive retail rates in the valley. We don't
16 necessarily have very low and competitive wholesale
17 rates all the time.

18 MR. GLOVER: This document best
19 represents the whole 158 distributors. There are
20 distributors on both ends of the issue, but whenever
21 you talk about the wall coming down, every
22 distributor's eyes open up because of the unknown.
23 We're real comfortable with the generation transmission
24 operation that TVA has. We feel like that we are very
25 fortunate there. Probably the biggest thing that you

1 will hear from folks that are looking to go somewhere
2 else along the Kentucky boarder is the lower rates.

3 But the second thing is having some
4 ownership in the assets that kind of gives you a longer
5 view and allows you to be involved in a longer term,
6 more than five years, maybe 20 years, whatever. But it
7 stabilizes the whole operation, not just TVA's, but it
8 also stabilizes each of our distributor models at our
9 local scene.

10 MR. DEPRIEST: For a number of years,
11 Mr. Chairman, the TVPPA position has been defensive.
12 What do we do to protect ourselves should the fence
13 come down? Will it come down? I don't know, but I
14 don't trust political whims. A few years ago
15 deregulation was the greatest fad in the world. It
16 died pretty quickly when people got a good dose of what
17 it really meant, but I don't know that I think that
18 that's an inoculation against it coming back.

19 I will add, though, you are the
20 governing board for one of the largest entities in this
21 country. We, sometimes as distributors, think of TVA
22 as a little bit like one of these large ships carrying
23 oil to this country. It takes an awful lot of real
24 estate and a long, long time to turn it around or to
25 change its direction. We have seen TVA provide

1 operational excellence for a number of years, but to
2 get to your point, I'm not sure that the fence or
3 anything else would be an issue if we didn't have 25
4 billion dollars worth of debt, and if we hadn't just
5 seen a 33 percent increase in wholesale rates over the
6 last 10 years. That has a way of making it less
7 comfortable.

8 MR. SANSOM: But there is a side of
9 that that we sit here and talk today about TVA and
10 we're assuming everybody outside of us is perfect. I
11 don't think they are. I mean, one thing I want to be
12 sure I understand that so what you're saying is given
13 the fence issue, you came up with this policy. It's
14 not necessarily what you would do as a policy if the
15 fence were "protected." In other words, in fact, one
16 of your things was you would agree to support this
17 megawatt for megawatt idea, and if I understand what I
18 hear you say, you've done that in the framework that
19 you, for some reason, believe the fence might come
20 down. So if the fence doesn't come down --

21 MR. HAYSLETT: There have been several
22 things that have happened from the time you begin the
23 noticing distributors giving notice through discussions
24 in Washington to everything else that certain
25 approaches would benefit not all distributors. Okay.

1 In an effort to provide a framework
2 that would benefit all distributors, we tried to
3 develop this proposal so that -- it was the dynamics of
4 what was happening at the time and, you know, once one
5 thing starts, everything else starts to fall in place,
6 and we could have nothing and watch it happen and see
7 where it fell or we tried to develop a proposal in
8 conjunction with TVA, and in conjunction with the
9 noticing distributors that would end up being fair to
10 all of us.

11 As I said in my remarks, I doubt very
12 seriously that Columbus Light and Water would be a
13 distributor that would give notice, but 8 to 10 years
14 ago, one of my neighbors did give notice, and his main
15 concern was the same thing that Jim Allison had is, he
16 didn't want to be the last man in the boat with the
17 debt.

18 MR. BOTTORFF: So if debt were down and
19 rates were going down, you'd feel a lot better?

20 MR. HAYSLETT: I'm going to feel a lot
21 better in five weeks.

22 MR. SANSOM: Y'all thought it would be
23 interesting to talk about whether you want to share in
24 this ownership thing, maybe we just want to give you
25 some debt.

1 I think that's helpful, because I think
2 what we're hearing, is you know, we come along, we're
3 kind of late on the arrival here. To be honest with
4 you, when I read your position, I had a hard time
5 totally understanding, that -- how are you friends or
6 however. But -- so what you're really saying is given
7 the environment we're in, that the fence is there, this
8 is your position. If the fence weren't messed with,
9 you might not have this position is what I hear you
10 saying. That's pretty important, I think.

11 MR. DEPRIEST: Could I make one
12 comment, Mr. Chairman. I think there are a few
13 distributors who would also take the position that I
14 take that some exposure to wholesale competition would
15 be a good thing for TVA, and would help in getting both
16 the debt down and holding rates down in the future.

17 MR. SANSOM: I understand. I don't
18 disagree with that at all.

19 MR. DUNCAN: Well, Mr. Allison proposed
20 at one point that we increase our rates to reduce the
21 debt, is that something -- is that idea shared with the
22 other distributors? Was that popular?

23 MR. DEPRIEST: I think we would all
24 like to see the debt addressed. My personal belief
25 would be that I'd like to see you pay it down as slowly

1 as you can, frankly. I think there are certainly
2 pressures from outside the valley that the debt be
3 addressed, and as a good business man, were I running
4 TVA, I would pay the debt down, but we would like to
5 see it go at a relatively slow rate to have as little
6 impact on our rate payers as we can.

7 MR. SANSOM: You know, there is, again,
8 coming in like we have, Denny is going to have some of
9 that charge, but, you know, to me in a way there is an
10 emotional thing about 25 billion. It's so big to all
11 of us to pay it down, but I think it's what you say is
12 important you've got to be sure the rates are right,
13 and I think we understand that, and what we're looking
14 at, because when it's AAA rated debt and we've got to
15 watch rates, we've got to not get too anxious to me.
16 That's what you're saying.

17 MR. GLOVER: Our consumers do bear the
18 burden and it is good to spread that for as long a
19 period and take the debt down, but not be dramatic on
20 the front end.

21 MR. SANSOM: I mean, we've got faced
22 whether we want "another Watts Bar" or not and whether
23 the debt is right for that, so it's not just us saying
24 take the debt down. You got to figure out what you do
25 with rates, and whether Watts Bar is a better

1 investment for rates than this emotion of saying take
2 the debt down.

3 Bill and Skila, you've been through
4 these battles, you got any -- what'd we miss?

5 MR. BAXTER: It's great. This is great
6 having this input.

7 MR. SANSOM: Howard.

8 MR. THRAILKILL: Mr. Hayslett, your
9 proposal, which is evolved in this era of a practical
10 approach and not an ideal environment was to allow
11 measured access inside the fence for in some way
12 encourage wholesale pricing and some degree of choice.
13 You say that's a first step.

14 The second step then would rely on the
15 legislative solution that would allow TVA to sell
16 outside and even though we've talked a lot about rates
17 and costs and so forth, all the data I see suggests
18 that TVA, despite some of the criticism it comes under,
19 is in the lower quartile in costs of the major
20 suppliers. How can you make me feel comfortable with
21 this proposal when I feel like if we were try to sell
22 outside the fence, we would encounter a storm of
23 resistance and that legislative solution would be a
24 long time coming.

25 MR. HAYSLETT: You currently have the

1 ability to sell to 14 --

2 MR. THRAILKILL: I'm talking about
3 outside the 14.

4 MR. HAYSLETT: Yeah, right. That takes
5 you deep in the market anyway. You may very well meet
6 resistance in taking that fence down in a modified
7 manner, but I would think if you had a modified manner
8 in which a fence came down and which it was tied to
9 growth and the departure could be such that it would be
10 a megawatt for megawatt type issue, that the resistance
11 would be much less than it would be if you just go out
12 there and somebody in congress drops a bill and the
13 fence hits the floor.

14 MR. KITCHENS: To follow up with that,
15 if we had --

16 MR. THRAILKILL: With all due respect
17 that's not real comforting to me, because I know that
18 we're going to -- is there anything beyond, this is
19 better than Armageddon?

20 MR. KITCHENS: It's my hopes that
21 through the contractual solution that's been discussed
22 and promoted here today that we will have had the
23 opportunity to demonstrate not only inside the valley,
24 but as an example to others, how this solution can
25 work, and hopefully that would be a positive influence

1 on the people in Washington that might craft
2 legislation to know that it can be done in a measured
3 way that is beneficial to all and not harming anyone.

4 MR. HAYSLETT: If the fence was
5 modified so that you can have the right to sell other
6 than the existing 14, and that's pretty deep in the
7 market by itself, but if you had the right to do that,
8 as you had people leave with -- and you're talking
9 about your growth matter, you have some options to make
10 whether you want to sell it or not or whether you want
11 to shut down some inefficient units or there are a lot
12 of things, but it provides you with some options that
13 helps you as far as the debt is concerned.

14 Those of us who remain, want to make
15 sure that we have given -- that TVA has all the options
16 they have. That they have the right to do something
17 and can sell that someplace else that we don't get
18 stuck with whatever's left. Now, the option may not be
19 to sell. The option may be to shut down an inefficient
20 unit as you lose some of those issues. But we're
21 trying to, in addition to those and give notice, we're
22 trying to make sure that those of who choose to remain
23 loyal to TVA, don't pick up some undue burden, and we
24 think that's a method in which that happens.

25 MR. SANSOM: I think that's important.

1 MR. GLOVER: Those of us that stay,
2 want TVA to be as strong and as viable and able to
3 carry on the business as possible. It's in our best
4 interests that you all are as healthy as you can
5 possibly be.

6 MR. SANSOM: That's a good way to end.
7 Thank you very much. Anything else? Tom, tell us what
8 to do, sir.

9 MR. KILGORE: Let me just ask the next
10 panel, we're going to take a 10-minute break. I know
11 it will be hard to get everybody back together, but I
12 would like the board and the next panel to be in place
13 in 10 minutes and everybody else will come back, so if
14 we could do that.

15 (Whereupon a brief recess was taken.
16 Off the record.)

17 MR. KILGORE: Thanks for getting back
18 in a timely manner. I want to introduce the third and
19 last panel. We have with us today people that are of
20 interested parties that are not distributors on this
21 panel.

22 First of all, Ed Bredniak, the
23 president of CC Metals and Alloys, who is here
24 representing our direct serve customers, the Tennessee
25 Valley Industrial Committee. Mark David Goss, the